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DEPARTMENT OF STATE

BRIEFING MEMORANDUM

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RELEASED IN PART
B1,A5 119

January 27, 1983

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TO: The Secretary
FROM: EA - Paul Wolfowitz
SUBJECT: Your Meeting with Wang Bingqian, Finance Minister

United States Department of State
Office of FOI, Privacy, & Classification Review
Review Authority: MARTENS, R.
Date: 09/28/85
Case ID: 9403671

I. OBJECTIVES

1. Express great appreciation for Wang's major effort in the Joint Economic Committee (JEC) and for ensuring the success of recently concluded session in Washington. Stress need to continue to make effective use of consultative mechanisms (Talking Points attached).
2. Address current international economic issues and encourage China's continued participation in international economic institutions (Talking Points Attached).
3. Express support for the expansion of US-China economic relations by negotiating investment, taxation and bilateral economic agreements; and by noting contributions private American firms can make to China's development. (Talking Points Attached).
4. (If raised) Be prepared to address ADB issue (Talking Points attached).

II. SETTING

Wang Bingqian has been active in financial and economic affairs since 1945. He has served in the Ministry of Finance and in the Bank of China. Wang is friendly, sincere and direct. [REDACTED] he is comfortable in virtually any situation and can speak on a wide variety of subjects.

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Many believe that in the coming decade economic ties will become the principal focus for strengthening the relationship. Nonetheless, this expansion will not be trouble-free. Wang may raise Chinese concern about perceived unnecessary and discriminatory U.S. trade obstacles, including U.S. restrictions on transfer of technology. In addition, he can be expected to suggest that U.S. financing is noncompetitive and that the U.S. should eliminate obstacles to official development assistance, and that we should extend export credits with lower interest rates than Exim normally provides.

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Wang has been active in the development of the Joint Economic Committee (JEC) which was set up at the time of Vice Premier Deng Xiaoping's visit to the United States in 1979. As leader of the Chinese delegation to the Third JEC Session in Washington, December 13-15, he will undoubtedly wish to share with you his personal assessment of the meeting and the prospects for continued economic cooperation through such a forum. Wang was unable to see you because you were out of Washington. At lunch with Undersecretary Eagleburger during the JEC, he stated there had been useful discussions of many specific subjects but that his major goal was to improve US-China relations and create a good atmosphere for future high level exchanges between the two governments. While noting "problem areas," Wang also said it was important to recognize that it takes time to settle bilateral differences and to establish a constructive dialogue while working steadily toward resolutions. You should warmly reciprocate this apparently sincere and constructive attitude.

III. PARTICIPANTS

UNITED STATES

The Secretary
Ambassador Hummel
EA - Paul Wolfowitz
PA - John Hughes
PM - Jonathan Howe
S - Raymond Seitz
NSC - Gaston Sigur
EA - Thomas Shoesmith
DOD - Richard Armitage
Embassy, DCM Charles Freeman
EA/C - William Rope
Economic Counselor David Brown
Commercial Counsellor Mel Searls
Two Embassy language officer notetakers
Vivian Chang (Interpreter)

CHINA

Wang Bingqian, Minister
Bu Ming, President,
Bank of China
Other Chinese Officials

IV. PRESS ARRANGEMENTS

Brief photo opportunity at beginning of the meeting.

Drafted: EA/C:LTakahashi
1/27/83 ext. 22656 W5370C
Cleared: Treas:PHAas/Commerce:RPerito/EB:RGold (previous subs)
Cleared: EA/C:RWMueller
EA/C:WFRope
EA:TPShoesmith

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V. OBJECTIVES

1. Express appreciation for Wang's major effort in the Joint Economic Committee (JEC) and for ensuring the success of recently concluded session in Washington. Stress need to continue to make effective use of consultative mechanisms.

-- I understand that the third session of the Joint Economic Committee which you recently co-chaired with Secretary Regan in Washington was positive, constructive and frank. I am grateful for the ongoing support and personal interest which you have generously dedicated to this program since its inception. From all accounts you were not only a strong delegation leader but an Ambassador of good will.

-- I want you to know that the State Department fully supports the Joint Economic Committee. Thorough consultative mechanisms such as the JEC, and the soon-to-be created Joint Commission on Commerce and Trade, we can continue to strive to foster a steadily growing, mutually beneficial economic relationship.

-- One theme that you stressed struck me particularly sharply. In a relationship this broad, irritants, sometimes strong irritants arise; but we can accomplish much by creating a climate of high level trust, understanding and friendship between our governments, than if we just criticize one another, and we can make steady progress to resolve problems.

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2. Address current international economic issues and encourage China's continued participation in international economic institutions.

China's orientation has gyrated from alliance with the Soviets to a commitment to nearly pure autarky, to a growing interdependence with the West. No matter how rational the opening to the West may be, it is not an immutable or unquestioned policy in China. [REDACTED]

[REDACTED]

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Wang would appreciate your views and respect your authority on the world economic situation. China plays an increasingly large role in world trade (total imports and exports about \$42 billion) and plans to increase its trade steadily in the coming year. Exports, which account for about 9% of GNP, are increasingly important. US interest lies in encouraging China to continue this constructive involvement in the world economy.

-- Current world economic situation serious: global trade has shrunk, many countries have accumulated large debt burdens. Recession in major industrial countries has limited export markets for developing world while strengthening pressures for protectionist measures.

-- U.S. economy poised for recovery. However, U.S. recovery modest initially, unlikely by itself to pull rest of world along quickly.

-- How do you view the current international economic and financial situation? What are your aims?

-- We are working with other countries to strengthen international trading system. To reduce strains on world financial system, are joining in increasing resources to IMF and encouraging commercial banks to continue lending to LDCs.

-- We have appreciated pragmatic attitude China has taken to relations between developed and developing countries; for example, at Cancun and your work at Toronto. We recognize common interests China shares with Third World. We all need to avoid rhetoric and search for practical results and encourage others to take realistic attitudes in North-South discussions.

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-- For instance, China encourages private investment on pragmatic basis, and it would be helpful if China would encourage other third world countries to take same kind of moderate approach rather than view foreign investment as predatory or worse.

-- China is playing a constructive role in multilateral financial organizations. We welcome this. Responsible Chinese participation in the world trading system should not only help your own economy but contribute to the durability of these institutions.

-- China should take advantage of the wide availability of foreign commercial loans to help finance improvements in technology and productivity even though interest rates may be somewhat higher.

-- U.S. capital markets are open to China. Exim Bank and other government programs will be able to finance some projects; indeed our willingness to make good on Vice President Mondale's commitment of \$2 billion of Eximbank credit remains unchanged; but, the bulk of China's foreign financing must come from private sector. Interest rates have decreased recently, and projects with solid rates of return should find financing easily.

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3. Express support for the expansion of US-China economic relations by negotiating investment, taxation and bilateral economic agreements; and by noting contribution private American firms can make to China's development.

China wishes to encourage foreign investment in certain sectors and has adopted some investment legislation. Nevertheless, investors see China as an uncertain and frustrating investment environment. The negotiation of a sound bilateral investment treaty (BIT) with China would help by providing some needed protections and incentives for U.S. investors. Similarly, a bilateral taxation agreement would contribute to a healthier investment climate.

-- U.S. firms increasingly willing to engage in joint ventures that result in long-term cooperative projects.

-- Note role large U.S. consulting and engineering firms providing design services, technological processes, management training and experience to strengthen China's industry.

-- Many factors provide security for investors: clear and public laws; clear authority for negotiators; good operating conditions; treaties. Improvements could stimulate increased trade and investment; benefit both countries.

-- We recognize and appreciate improvement in operating conditions for U.S. firms in China (hotel space, visas, travel, telex facilities, access to purchasers). But I want to express hope you continue devote great attention and efforts, further improvements in these areas.

-- Investors also need know assets and proprietary information protected; need know when they sell piece of equipment or industrial process to one factory, it will not be replicated elsewhere in China or sold abroad without proper compensation. Comprehensive Chinese patent law needed to provide this protection.

-- U.S. firms also require mechanisms for dispute resolution.

-- Our countries will begin negotiating bilateral investment treaty second quarter this year. See conclusion of this treaty as important element to create proper environment for investment.

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-- Discussion of investments often long and drawn out . process. Basic information, such as laws and lines of authority not always available and proposals accepted at lower levels seem to require indefinite review at higher levels, or never reach those levels. Time and effort spent by one firm on unproductive projects can frighten off others who interested. Need your help to streamline.

-- A bilateral tax agreement would also help resolve tax issues arising from move beyond simple trade to more substantial investments and cooperative ventures. Understand that progress toward tax treaty was made at first round last fall and that second session scheduled for this spring.

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4. (If raised) Be prepared to address ADB issue.

We have already informed Beijing that we anticipate supporting its application for membership in the ADB, but that we face a difficult internal problem. We explained the sense of the Congress resolution. Beijing originally said it would not apply until Taiwan's membership was terminated. More recently an MFA official said China is preparing an application, but he did not indicate when China might apply. You should not raise this issue. If Wang raises it, you should merely reiterate that we anticipate supporting China's membership and that its application is a matter for the members of the Bank to decide collectively. There is no need to discuss the Congressional resolution--we have already told them of our problem and to raise it again could provoke responses from Wang that would make even more difficult the handling of this issue between us.

-- Ambassador Hummel has informed your government that we anticipate supporting China's application for membership in the Bank, in accordance with our recognition of the PRC as the sole legal government of China.

-- Once your application is submitted, it will be a matter for the members of the Bank to decide collectively.

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